

**Township of Billings  
Gladwin County, Michigan**

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26-1030  
**Financial Statements**  
**March 31, 2004**

 **Burnside & Lang, P.C.**  
 **CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS**

*Accounting Solutions That Foster Success*

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name BILLINGS TOWNSHIP	County GLADWIN
Audit Date March 31, 2004	Opinion Date May 27, 2004	Date Accountant Report Submitted to State: September 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan*, as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ yes ☐ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C.			
Street Address 5915 EASTMAN AVENUE, SUITE 100		City MIDLAND	State MI
Accountant Signature <i>[Signature]</i>		ZIP 48640	<i>9/30/04</i>

**Township of Billings  
Gladwin County, Michigan**

**For The Year Ended March 31, 2004**

Boyd Wallace	Supervisor
Eleanor Allen	Treasurer
Sandra Aultman	Clerk
Theresa Millhisler	Trustee
Minnie Swinson	Trustee

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

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**Independent Auditors' Report**

To The Honorable Members of  
The Township Board  
Township of Billings  
Gladwin County, Michigan

We have audited the general purpose financial statements of the Township of Billings, Gladwin County, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Township Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Billings, Gladwin County, Michigan, at March 31, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as combining fund financial statements and supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Billings, Gladwin County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Midland, Michigan  
May 27, 2004

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
March 31, 2004**

	<u>Governmental Funds</u>		<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Account Group</u>	<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Current Tax Collection Fund</u>	<u>General Fixed Assets</u>	<u>(Memorandum Only)</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 263,880	\$ 224,316	\$ 253,868	\$ 482	\$ -	\$ 742,546
Taxes and assessments receivable	7,071	38,898	-	-	-	45,969
Miscellaneous receivable	4,690	-	-	-	-	4,690
Due from other funds	482	-	-	-	-	482
Construction in progress	-	-	460,620	-	-	460,620
Land and land improvements	-	-	-	-	51,244	51,244
Buildings	-	-	-	-	282,032	282,032
Equipment	-	-	-	-	950,142	950,142
<b>TOTAL ASSETS</b>	<b>\$ 276,123</b>	<b>\$ 263,214</b>	<b>\$ 714,488</b>	<b>\$ 482</b>	<b>\$ 1,283,418</b>	<b>\$ 2,537,725</b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities</b>						
Accounts payable	\$ 58,880	\$ 3,254	\$ 71,036	\$ -	\$ -	\$ 133,170
Accrued expenses	2,153	-	9,452	-	-	11,605
Due to other funds	-	-	-	482	-	482
Deferred revenue	-	44,100	-	-	-	44,100
Note payable	-	-	634,000	-	-	634,000
<b>Total Liabilities</b>	<b>61,033</b>	<b>47,354</b>	<b>714,488</b>	<b>-</b>	<b>-</b>	<b>823,357</b>
<b>Fund Equity</b>						
Investment in general fixed assets	-	-	-	-	1,283,418	1,283,418
Fund Balances:						
Unreserved and undesignated	215,090	215,860	-	-	-	430,950
<b>Total Fund Balance</b>	<b>215,090</b>	<b>215,860</b>	<b>-</b>	<b>-</b>	<b>1,283,418</b>	<b>1,714,368</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 276,123</b>	<b>\$ 263,214</b>	<b>\$ 714,488</b>	<b>\$ -</b>	<b>\$ 1,283,418</b>	<b>\$ 2,537,725</b>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
For The Year Ended March 31, 2004**

	<b>Governmental Fund Types</b>		<b>Total (Memorandum Only)</b>
	<b>General</b>	<b>Special Revenue</b>	
<b>REVENUES</b>			
Property taxes	\$ 56,759	\$ 111,800	\$ 168,559
Licenses and permits	1,592	-	1,592
State revenue sharing	190,131	-	190,131
Charges for services	21,157	-	21,157
Interest income	5,804	351	6,155
Rents and royalties	5,450	-	5,450
Special assessments	14,414	160,080	174,494
Cable franchise fees	9,670	-	9,670
Cemetery revenue	2,700	-	2,700
Miscellaneous	1,376	201	1,577
<b>Total Revenues</b>	<b>309,053</b>	<b>272,432</b>	<b>581,485</b>
<b>EXPENDITURES</b>			
General Government:			
Township board	12,380	-	12,380
Supervisor	10,532	-	10,532
Treasurer	25,174	-	25,174
Assessing	37,873	-	37,873
Clerk	12,368	-	12,368
Elections	372	-	372
Board of review	1,975	-	1,975
Buildings and grounds	8,690	-	8,690
Cemetery	6,857	-	6,857
All other general government	37,232	-	37,232
Public Safety:			
Fire protection	-	27,465	27,465
Constable	1,564	-	1,564
Public Works:			
Drains	44,296	-	44,296
Roads	161,417	-	161,417
Street lights	1,782	-	1,782
Sanitation	-	152,786	152,786
Community Development:			
Planning commission	10,626	-	10,626
Zoning board of appeals	1,472	-	1,472
Zoning administration	4,395	-	4,395
Capital outlay	2,700	46,485	49,185
<b>Total Expenditures</b>	<b>381,705</b>	<b>226,736</b>	<b>608,441</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>(72,652)</b>	<b>45,696</b>	<b>(26,956)</b>
Fund Balances At The Beginning Of The Year	287,742	170,164	457,906
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<b>\$ 215,090</b>	<b>\$ 215,860</b>	<b>\$ 430,950</b>

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
ALL GOVERNMENTAL FUND TYPES  
For The Year Ended March 31, 2004**

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTAL (Memorandum only)		
	Amended Budget	Actual	Variance	Amended Budget	Actual	Variance	Amended Budget	Actual	Variance
<b>REVENUES</b>									
Property taxes	\$ 57,034	\$ 56,759	\$ (275)	\$ 102,307	\$ 111,800	\$ 9,493	\$ 159,341	\$ 168,559	\$ 9,218
Licenses and permits	1,560	1,592	32	-	-	-	1,560	1,592	32
State revenue sharing	205,844	190,131	(15,713)	-	-	-	205,844	190,131	(15,713)
Charges for services	19,595	21,157	1,562	-	-	-	19,595	21,157	1,562
Interest income	5,000	5,804	804	-	351	351	5,000	6,155	1,155
Rental and royalties	5,000	5,450	450	-	-	-	5,000	5,450	450
Special assessments	17,655	14,414	(3,241)	166,731	160,080	(6,651)	184,386	174,494	(9,892)
Cable franchise fees	10,544	9,670	(874)	-	-	-	10,544	9,670	(874)
Cemetery revenue	3,400	2,700	(700)	-	-	-	3,400	2,700	(700)
Miscellaneous	30,000	1,376	(28,624)	-	201	201	30,000	1,577	(28,423)
<b>Total Revenues</b>	<b>355,632</b>	<b>309,083</b>	<b>(46,549)</b>	<b>269,038</b>	<b>272,432</b>	<b>3,394</b>	<b>624,670</b>	<b>581,485</b>	<b>(43,185)</b>
<b>EXPENDITURES</b>									
General Government:									
Township board	13,768	12,380	1,388	-	-	-	13,768	12,380	1,388
Supervisor	12,867	10,532	2,335	-	-	-	12,867	10,532	2,335
Treasurer	26,017	25,174	843	-	-	-	26,017	25,174	843
Assessing	42,000	37,873	4,127	-	-	-	42,000	37,873	4,127
Clerk	14,717	12,368	2,349	-	-	-	14,717	12,368	2,349
Elections	1,725	372	1,353	-	-	-	1,725	372	1,353
Board of review	2,400	1,975	425	-	-	-	2,400	1,975	425
Buildings and grounds	12,615	8,690	3,925	-	-	-	12,615	8,690	3,925
Cemetery	6,750	6,857	(107)	-	-	-	6,750	6,857	(107)
All other general government	48,400	37,232	11,168	-	-	-	48,400	37,232	11,168
Public Safety:									
Fire protection	-	-	-	32,082	27,465	4,617	32,082	27,465	4,617
Constable	1,560	1,564	(4)	-	-	-	1,560	1,564	(4)
Public Works:									
Drains	60,000	44,296	15,704	-	-	-	60,000	44,296	15,704
Roads	250,200	161,417	88,783	-	-	-	250,200	161,417	88,783
Street lights	4,100	1,782	2,318	-	-	-	4,100	1,782	2,318
Sanitation	-	-	-	154,000	152,786	1,214	154,000	152,786	1,214
Community Development:									
Planning commission	12,550	10,626	1,924	-	-	-	12,550	10,626	1,924
Zoning board of appeals	2,600	1,472	1,128	-	-	-	2,600	1,472	1,128
Zoning administration	5,900	4,395	1,505	-	-	-	5,900	4,395	1,505
Capital outlay	5,000	2,700	2,300	66,431	46,485	19,946	71,431	49,185	22,246
<b>Total Expenditures</b>	<b>523,169</b>	<b>381,705</b>	<b>141,464</b>	<b>252,513</b>	<b>226,736</b>	<b>25,777</b>	<b>775,682</b>	<b>608,441</b>	<b>167,241</b>
Excess (Deficiency) of Revenues Over Expenditures	(167,537)	(72,652)	\$ 94,885	16,525	45,696	\$ 29,171	(151,012)	(26,956)	\$ 124,056
Fund Balances At The Beginning Of The Year	287,742	287,742	-	170,164	170,164	-	457,906	457,906	-
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<b>\$ 120,205</b>	<b>\$ 215,090</b>	<b>\$ 94,885</b>	<b>\$ 186,689</b>	<b>\$ 215,860</b>	<b>\$ 29,171</b>	<b>\$ 306,894</b>	<b>\$ 430,950</b>	<b>\$ 124,056</b>

The accompanying notes are an integral part of these financial statements.



**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
For The Year Ended March 31, 2004**

	<u>Enterprise</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating income	\$ -
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:	
Change in assets and liabilities which provided (used) cash:	
Accounts payable and accrued expenses	<u>(31,282)</u>
<b>Net cash provided by (used for) operating activities</b>	<u>(31,282)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Construction of fixed assets	<u>(348,850)</u>
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>(348,850)</u>
<b>Net increase (decrease) in cash</b>	<b>(380,132)</b>
Cash and Cash Equivalents at Beginning of Year	<u>634,000</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>\$ 253,868</u></u>

The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
March 31, 2004**

**NOTE 1. DESCRIPTION OF THE TOWNSHIP**

The Township of Billings is a predominately rural township located in Gladwin County, Michigan and covers an area of approximately 28 square miles. The Township operates under an elected five-member Board of Trustees and provides fire protection, garbage collection, and community enrichment and development to its 2,715 residents (2000 census).

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Billings, Gladwin County, Michigan, conform to generally accepted accounting principles. The following is a summary of the significant policies:

- A) **Scope of Reporting Entity.** In accordance with the provisions of the National Council on Government Accounting's Statement No.3, "Defining the Governmental Reporting Entity," the financial statements contain all the funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.
- B) **Basis of Accounting.** The modified accrual basis of accounting is followed by all governmental fund types. The modified accrual basis of accounting is defined as that method of accounting in which expenditures other than accrued interest on general long-term debt are recorded at the time liabilities are incurred. Revenues are recorded when received in cash, except revenues derived from the levy of taxes and from charges for services rendered, which are recorded when levied or earned. Revenues susceptible to accrual include property taxes, interest and fees. The sewer fund is a proprietary type fund (Enterprise) and is accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.
- C) **General Fixed Assets.** Purchases of general fixed assets in the governmental fund type operations are recorded as expenditures in the respective funds at the time of purchase. Such assets are capitalized at cost in the general fixed assets account group except for certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems. Gifts or contributions are recorded in the general fixed assets account group at fair market value at the time of receipt. No depreciation has been provided for on the general fixed assets. Proprietary fund fixed assets are recorded in the respective fund and depreciated using the straight-line method. The estimated life for the sewer system will be 50 years.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
March 31, 2004**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

D) **Property Taxes.** Property taxes are levied each December 1<sup>st</sup> and recorded as revenue at that time. Real property taxes not collected as of March 1<sup>st</sup> are turned over to Gladwin County, which advances the Township 100% for the delinquent taxes.

E) **Basis of Presentation.** The financial activities of the Township of Billings are recorded in separate funds and account groups, categorized and described as follows:

**Governmental Funds**

**General Fund.** This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township of Billings. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

**Special Revenue Funds.** These funds are used to account for specific governmental revenues (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provision or administrative action.

**Proprietary Funds**

**Enterprise Funds.** The Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. Operating revenues within these funds consist of service fees billed and collected from the usage of sewer systems.

**Fiduciary Funds**

**Trust and Agency Fund.** This fund (Tax Collection Fund) is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
March 31, 2004**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Account Groups**

**General Fixed Assets Account Group.** This account group presents the fixed assets of the local unit utilized in its general operations.

- F) Cash, Cash Equivalents, and Investments.** For purposes of the statement of cash flows, demand deposits and short-term investments with maturity of three months or less when acquired are considered to be cash equivalents.
- G) Receivables.** Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible amounts have not been provided for because the Township Board does not consider collection doubtful.
- H) Special Assessments.** Special assessments are recorded as revenue in the year they are collected or when they are turned over to Gladwin County as delinquent.
- I) Encumbrances.** Encumbrances are defined as commitments related to unperformed contracts for goods or services. The Township does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.
- J) Total Column on Combined Statements—Overview.** The total column on the combined statements is captioned “Memorandum Only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

**NOTE 3. LEGAL COMPLIANCE**

**Budget Information**

The annual budget is prepared by the Township Supervisor and adopted by the Board of Trustees; subsequent amendments are approved by the Board of Trustees. The annual operating budget has been prepared in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year-end.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
March 31, 2004**

**NOTE 3. LEGAL COMPLIANCE (Continued)**

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Township for these budgeted funds were adopted to the activity level. During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund-Cemetery	\$ 6,750	\$ 6,857
General Fund-Constable	1,560	1,564

Credit Card Policy

The Township uses a credit card and has not adopted by resolution a credit card policy as required by P.A. 266 of 1995 (MCL 129.241).

**NOTE 4. CASH DEPOSITS**

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all the instruments listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

The carrying amounts and bank balances of the Township's deposits at March 31, 2004 total \$742,546 and \$744,586, respectively. Bank balances insured by the FDIC at March 31, 2004 was \$268,355, and \$476,231 was uninsured and uncollateralized.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS  
March 31, 2004**

**NOTE 5. BOND ANTICIPATION NOTE**

In March 2003, the Township issued a \$634,000 short-term note to pay for certain project costs in connection with the construction of a sanitary sewer system. The note is secured by the proceeds of bonds to be issued by the Township to finance the costs of the project. The Township expects to issue bonds in an aggregate principal amount of not less than \$2,890,000 on or about September 1, 2005 in order to finance the completion of the project. The Township is responsible for making semi-annual interest payments through November 1, 2005 and repayment of the principal after the bonds are sold. The interest rate is 3.58% and total interest costs for the year ended March 31, 2004 totaled \$22,697, all of which was capitalized.

**NOTE 6. SIMPLIFIED EMPLOYEE PENSION PLAN**

The Township provides a Simplified Employee Pension (SEP) Plan, in which the Township contributes a discretionary percentage to an employee's individual retirement account on behalf of each Township employee who is at least 18 years old and elects to participate. The total payroll for all Township employees for the year ended March 31, 2004, was \$65,908 of which \$34,882 was covered under the plan. During the year ended March 31, 2004, the Township made contributions to the plan of 7.5% of the eligible employees' wages for a total of \$2,616.

**NOTE 7. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**NOTE 8. RELATED PARTY TRANSACTIONS**

The Township purchases supplies from the Clerk's family business, Sandy's Market; purchases for the year ended March 31, 2004 totaled \$2,344. The Township also purchases supplies from the Fire Chief's family business, Vincent Service; purchases for the year totaled \$612.

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS  
March 31, 2004**

	<u>Fire Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 172,588	\$ 51,728	\$ 224,316
Taxes and assessments receivable	<u>12,780</u>	<u>26,118</u>	<u>38,898</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 185,368</u></b>	<b><u>\$ 77,846</u></b>	<b><u>\$ 263,214</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 3,254	\$ -	\$ 3,254
Deferred revenue	<u>44,100</u>	<u>-</u>	<u>44,100</u>
<b>Total Liabilities</b>	<b><u>47,354</u></b>	<b><u>-</u></b>	<b><u>47,354</u></b>
<b>FUND EQUITY</b>			
Fund balances -			
Unreserved and undesignated	<u>138,014</u>	<u>77,846</u>	<u>215,860</u>
<b>Total Fund Equity</b>	<b><u>138,014</u></b>	<b><u>77,846</u></b>	<b><u>215,860</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 185,368</u></b>	<b><u>\$ 77,846</u></b>	<b><u>\$ 263,214</u></b>

**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - ALL SPECIAL REVENUE FUND TYPES**

**For The Year Ended March 31, 2004**

	<u>Fire Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Property taxes	\$ 111,800	\$ -	\$ 111,800
Special assessments	-	160,080	160,080
Interest income	298	53	351
Miscellaneous	201	-	201
	<u>112,299</u>	<u>160,133</u>	<u>272,432</u>
<b>Total Revenues</b>			
<b>EXPENDITURES</b>			
Public safety	27,465	-	27,465
Capital outlay	46,485	-	46,485
Sanitation	-	152,786	152,786
	<u>73,950</u>	<u>152,786</u>	<u>226,736</u>
<b>Total Expenditures</b>			
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>38,349</b>	<b>7,347</b>	<b>45,696</b>
<b>Fund Balances - Beginning of Year</b>	<u>99,665</u>	<u>70,499</u>	<u>170,164</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 138,014</u></u>	<u><u>\$ 77,846</u></u>	<u><u>\$ 215,860</u></u>



**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES—CURRENT TAX FUND  
For the Year Ended March 31, 2004**

	<u>BALANCE 4/1/2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE 3/31/2004</u>
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 889</u>	<u>\$ 1,591,266</u>	<u>\$ 1,591,673</u>	<u>\$ 482</u>
<b>Total Assets</b>	<u><u>\$ 889</u></u>	<u><u>\$ 1,591,266</u></u>	<u><u>\$ 1,591,673</u></u>	<u><u>\$ 482</u></u>
<b>Liabilities</b>				
Due to township funds	<u>\$ 889</u>	<u>\$ 342,172</u>	<u>\$ 342,579</u>	<u>\$ 482</u>
Due to other governmental units	<u>-</u>	<u>1,249,094</u>	<u>1,249,094</u>	<u>-</u>
<b>Total Liabilities</b>	<u><u>\$ 889</u></u>	<u><u>\$ 1,591,266</u></u>	<u><u>\$ 1,591,673</u></u>	<u><u>\$ 482</u></u>

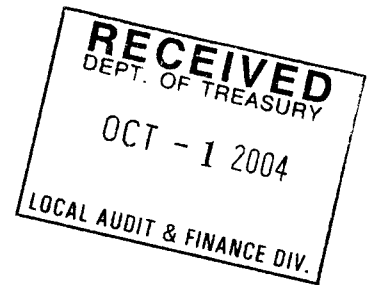
**TOWNSHIP OF BILLINGS  
GLADWIN COUNTY, MICHIGAN**

**SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
For The Year Ended March 31, 2004**

	<u>BALANCE</u> <u>4/1/2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>3/31/2004</u>
<b>General Fixed Assets</b>				
Land and land improvements	\$ 51,244	\$ -	\$ -	\$ 51,244
Buildings	282,032	-	-	282,032
Equipment	<u>900,957</u>	<u>49,185</u>	<u>-</u>	<u>950,142</u>
<b>Investment in General Fixed Assets</b>	<u>\$ 1,234,233</u>	<u>\$ 49,185</u>	<u>\$ -</u>	<u>\$ 1,283,418</u>

May 27, 2004

Members of the Township Board  
of Trustees  
Township of Billings  
Gladwin County, Michigan



Dear Board Members:

In planning and performing our audit of the financial statements of Billings Township, for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

### **REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)**

#### **Periodic Financial Reports (Repeat Comment)**

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

##### **Treasurer**

- Summary report of cash activity by fund (monthly).
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).

##### **Clerk or Accounting or Controller or Finance Department**

- Balance sheet by fund (monthly).
- Detail revenue by fund - budget to actual (monthly).
- Detail expenditures by fund - budget to actual (monthly).
- List of bills to be approved for payment (each meeting).
- Separate list of bills paid prior to approval pursuant to a council approved policy (each meeting).

Audit & Assurance Services ■ Accounting & Finance Services ■ Estate & Gift Tax Planning & Consulting  
Tax Planning & Preparation ■ Financial & Management Assistance ■ Business Valuations

### **Periodic Financial Reports (Continued)**

The Clerk and Treasurer do not provide the Township Board of Trustees with the required reports. These reports will assist the board members in determining whether the financial activity of the various funds is within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc.

### **Township Credit Card**

The Township uses a credit card for the purchase of goods and services. The Township does not have a credit card policy, which is mandated by the State of Michigan. We recommend the Township adopt by resolution a credit card policy to comply with the State of Michigan requirement. A good sample policy can be found by visiting the Michigan Township's Association website.

### **Bank Reconciliations**

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The Clerk's records must agree with or reconcile to the Treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Township Board is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

### **Control of Cash Receipt Books**

The State of Michigan mandates that cash receipts books issued to other departments must be accounted for numerically. The Township Clerk uses cash receipt books that are not controlled by the Township Treasurer. We recommend the Treasurer control the issuance of cash receipt books to the Clerk and any other Township officials who collect money to comply with the State of Michigan's requirement.

### **Policy Regarding Cash Disbursements**

Our inquiries of the Township Clerk revealed that cash disbursements are being made prior to approval by the Board of Trustees. This is acceptable if the Township has an adopted a policy which states what disbursements can be released. Typical disbursement include recurring utilities and payroll. We recommend the Township adopt a policy as to what type of disbursements can be released prior to Board of Trustee approval at the monthly meeting and prepare a list of these disbursement for subsequent approval.

### **Interfund Advances**

It was brought to our attention during our audit that the Township Treasurer advances funds from the General Fund to the Garbage Collection Fund, and then pays it back once the special assessments are collected during the winter tax collection. This type of transaction is acceptable, but the Treasurer should receive permission from the Township Board of Trustees. Therefore, we recommend the Township Treasurer receive permission from the Township Board of Trustees first before making interfund advances or transfers.

### **Appropriations in Budgetary Funds**

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of the amount appropriated in the General Fund.

We recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

### **Computerized General Ledger (Repeat Comment)**

The general ledger is the primary financial record of the Township and must reflect all financial activity. During our audit, we noted the Current Tax Collection Fund is not maintained by the Clerk on the General Ledger. We recommend the Clerk establish this fund on the general ledger to report this information on a monthly basis so that Township Board members can perform their financial oversight responsibility.

### **OTHER MATTERS**

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

#### **Financial Oversight**

The general limitations in any smaller municipalities like the Township of Billings requires that the Township Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions, and our comment here is intended to emphasize the importance of this oversight.

#### **Conflict of Interest Policy**

The Township has related party transactions with the Clerk and Fire Chief. Related party transactions can often be controversial. We recommend the Township Board of Trustees adopt a Conflict of Interest Policy to assist in governing the business practices of the Township.

#### **Fixed Asset Inventory (Repeat Comment)**

The Governmental Accounting Standards Board (GASB) and the Michigan Department of Treasury are requiring governmental units to change the way they report financial information in audited financial statements. A significant component of this change is the valuation of fixed assets and a related amount for depreciation. The Township will be required to implement this change during the year ended March 31, 2005. We recommend the Township take a physical inventory of all its fixed assets as of March 31, 2004 in anticipation of this required change.

**Information System**

Township officials currently utilize various systems to process data to communicate financial information to governmental officials, interested citizens, media and those who participate in the lending process. We recommend the Supervisor, Clerk and Treasurer use the existing accounting system to process financial data and to use its standard reports to communicate this information to interested parties. The Supervisor will be responsible for inputting and maintaining budget information; the Treasurer will be responsible for inputting cash receipts and utilizing the cash reconciliation functions; and the Clerk will be responsible for the processing of payroll and the disbursing of accounts payable obligations. Following this recommendation will improve the accuracy and timeliness with regard to the submission of required financial reports.

**Risk Analysis**

During our discussions with the Supervisor and Clerk we noted that the Township has not had a current risk analysis performed by the Township's insurance company. Therefore, we recommend the Township contact its insurance carrier and schedule a risk analysis to review all operations of the Township.

**Conclusion**

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2004, financial statements, and this report does not affect our report on those financial statements dated May 27, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



**BURNSIDE & LANG, P.C.**